

Message Text

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ACTION EB-11

INFO OCT-01 ARA-11 EA-11 ADP-00 SCEM-02 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PA-03 PRS-01 USIA-12 INT-08 /157 W

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R 251919 Z JUN 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7839

INFO AMEMBASSY CARACAS

AMEMBASSY LIMA

AMEMBASSY TOKYO

AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 3315

E. O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: BIDDING ON ROYALTY CRUDE REOPENED; PETROLEUM REFERENCE
PRICE INCREASED

REF: A. QUITO 2596; B. QUITO 2740

SUMMARY: GOE CANCELLED AWARD OF ROYALTY CRUDE TO JAPANESE
FIRM AT \$3.61 PER BARREL ON STATED GROUNDS OF ERRONEOUS
INTERPRETATIONS OF THE BIDS AND ANNOUNCED THAT NEW BIDS
WOULD BE REQUESTED FOR JULY 16. FOLLOWING DAY GOE RAISED
PETROLEUM REFERENCE PRICE 40 CENTS PER BARREL TO \$3.60.
ACCORDING TEXACO- GULF SOURCE, TAX BITE ON CRUDE NOW EXCEEDS
THAT IN VENEZUELA. EMBASSY ESTIMATES THAT INCREASE WILL
YIELD GOE ADDITIONAL \$9 MILLION IN REMAINDER OF 1973.

1. GOE DECIDED IN JUNE 19 CABINET MEETING NOT TO
ACCEPT BID OF \$3.61 PER BARREL BY JAPANESE FIRM
SUMITOMO SHOJI KAISHA FOR GOE' S SIXTEEN PERCENT ROYALTY
SHARE OF CRUDE. SUMITOMO WAS SELECTED MAY 22 FROM
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AMONG 24 FIRMS WHICH MADE OFFERS. ACCORDING TO GOVERNMENT SPOKESMAN, MINISTER OF NATURAL RESOURCES JARRIN ASKED RESULTS OF BIDDING TO BE CANCELLED BECAUSE "IMPRECISION" IN THE OFFERS HAD GIVEN RISE TO "DIVERSE AND ERRONEOUS INTERPRETATIONS" WHICH HINDERED DETERMINING THEIR RESPECTIVE BENEFITS. CABINET DECIDED TO OPEN THE BIDDING ANEW, WITH A DEADLINE OF JULY 16.

2. ANTICIPATING CRITICISM THAT GOE WAS LOSING MONEY BY DELAY IN IMPLEMENTATION OF ROYALTY CRUDE SALE, JARRIN ANNOUNCED A NEW REFERENCE PRICE OF \$3.60 PER BARREL EFFECTIVE MIDNIGHT JUNE 20. HE STATED THAT THE FORTY CENTS PER BARREL INCREASE WOULD BRING IN AN ADDITIONAL 380 MILLION SUCRES (\$15 MILLION) IN REVENUES DURING THE REMAINDER OF 1973.

3. AFTER CONCURRING THAT ONE MUST TAKE MAXIMUM ADVANTAGE OF NATURAL RESOURCES, EL COMERCIO, QUITO'S LEADING DAILY, OBSERVED IN JUNE 22 EDITORIAL THAT INCREASING PRODUCTION REQUIRES NEW INVESTMENT, WHICH OUGHT TO BE FACILITATED BY PRICING POLICY AND PETROLEUM POLICY IN GENERAL. "ANY PRECIPITOUS STEP COULD HAVE REGRETTABLE CONSEQUENCES". NOTING THAT PRICES SHOULD BE MAINTAINED COMPETITIVE, EL COMERCIO ESTIMATED THAT THE ECUADOREAN REFERENCE PRICE NOW EXCEEDS THAT OF VENEZUELA. WITH UNACCUSTOMED SARCASM, THE EDITORS PRESUMED THAT THE MINISTRY OF NATURAL RESOURCES, "WITH ALL ITS TECHNICIANS AND ADVISORS" MUST HAVE "MEDITATED DEEPLY" BEFORE DETERMINING THAT INCREASE BORE NO RISK.

4. ACCORDING TO A TEXACO- GULF EXECUTIVE IN QUITO, AN ECUADOREAN REFERENCE PRICE OF \$3.40 - \$3.50 WOULD IMPLY A TAX YIELD EQUIVALENT TO VENEZUELA'S.

5. AT THE TIME THAT THE GOE REQUESTED BIDS ON THE ROYALTY OIL, TEXACO- GULF OFFICIALS EXPRESSED SUSPICION TO EMBOFFS THAT BIDDING PROCEDURE WAS GOE ATTEMPT TO ASCERTAIN "TRUE" MARKET VALUE OF OIL FOR PURPOSE OF RAISING REFERENCE PRICE. THAT SUSPICION IS NOW BORNE OUT, WHETHER IT WAS THE GOE'S ORIGINAL INTENTION OR NOT. HOWEVER, AS WE UNDERSTAND IT, SUMITOMO'S BID OF \$3.61 PER BARREL REPRESENTS A MARKET PRICE FOR MARGINAL SUPPLIES ONLY; NO COMPANY WOULD BUY AND TRANSPORT THE BULK OF ITS CRUDE FOR REFINING AT THAT PRICE.

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SENTS A MARKET PRICE FOR MARGINAL SUPPLIES ONLY; NO COMPANY WOULD BUY AND TRANSPORT THE BULK OF ITS CRUDE FOR REFINING AT THAT PRICE.

6. EMBASSY ESTIMATES THE REVENUE FROM THE REFERENCE PRICE INCREASE AT A FIGURE LOWER THAN JARRIN'S. ON THE BASIS OF 230,000 BARRELS PER DAY, THE INCREASE WILL YIELD ABOUT

\$5 MILLION FOR GENERAL REVENUES AND ANOTHER \$4 MILLION
EARMARKED FOR GOVERNMENT ENTITIES.
CHAPLIN

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